

Kogta Financial (India) Limited (Revised)

July 22, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities - Term loans	1,400.00 (Enhanced from 900.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total bank facilities	1,400.00 (₹ One Thousand Four Hundred Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings (CARE) has reaffirmed the ratings assigned to the bank facilities and debt securities of Kogta Financial (India) Limited to "CARE A; Stable". The rating factors in company's successful completion of Series D round of institutional equity infusion of Rs.400 crore that has bolstered its capital base as well as demonstrated ability to scale up the business, notwithstanding disruptions from the pandemic while managing asset quality metrics. The rating of Kogta Financial (India) Ltd (KFL) also derives strength from its long-established track record in financing industry, experienced promoters, diversified resource base, majorly secured nature of the portfolio and well managed systems and processes.

The rating is however constrained by moderate geographical concentration, inherent risks emanating from the borrower segment susceptible to economic downturns, and modest profitability. The rating is further constrained on account of pressure on asset quality levels on the back of economic shocks induced by Covid-19, although CARE believes that KFL has been able to control net 90+ dpd delinquencies at 2.29% levels.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in loan portfolio.
- Diversification in terms of geography and resource base along with sustained improvement in asset quality.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in profitability – decline in ROTA below 1.5% on sustained basis.
- Deterioration in asset quality such that Net NPA to Tangible Net worth remain above 10% on sustained basis.
- Overall gearing exceeding 4 times

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record of operations: Mr. Radha Krishan Kogta (Chairman), key promoter of the company, has vast experience of more than 35 years in the finance, construction and other SME businesses, especially in vehicle financing and has been instrumental in driving the growth of the company since inception. Currently, Mr. Arun Kogta (having more than a decade of experience) looks after the operations and geographical expansion activities while Mr. Varun Kogta (having more than a decade of experience) handles the Finance, IT and HR functions. Both are also involved in strategic decision making. The top management team of KFL has rich experience in their respective fields. Further, with the recent capital raise, KFL has also demonstrated its ability to onboard new as well as tap existing reputed PE investors for additional capital.

Further, KFL has a long track record of more than two decades in the industry. Over the years, KFL has built a large customer base, thereby generating substantial business from its existing customers. Verticalization in the organization structure undertaken in the recent times has helped in taking a more focused approach across product types. Also, KFL has built a decent employee strength which increased from 2,239 as on March 31, 2021 to 3,181 as on March 31, 2022 including several hires at the mid-senior management level. Going forward, as KFL aims to further penetrate geographies and increase scale, the company will be focusing on hiring of executives and branch managers and plans to close the headcount at around 4300 in FY23.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure on account of regular fund infusion to provide cushion to absorb elevated credit costs if any, going forward: Following the equity infusion in May 2022, KFL's net owned funds increased substantially to Rs.1050 crore, from Rs.651 as of March 31, 2022, thereby providing the balance sheet strength to undertake the next phase of growth. The capital adequacy ratio increased to around 45% in comparison to 28.46% (Tier I: 28.46%), as on March 31, 2022, well above regulatory requirements of 15%.

Over the last several years, KFL has received funds on a regular basis aggregating to the tune of Rs.486.25 crore, via issuing Compulsory Convertible Preference Shares (CCPS) to various large investors. This has helped KFL maintain gearing levels at comfortable levels of 2.93x as on March 31, 2022. Adjusted gearing following the capital infusion, decreased to around 1.8x from 2.93x in FY22. We expect overall gearing to increase as company undertakes planned growth in AUM levels, however on a steady state basis, gearing levels are likely to trend around 4x, and this will remain a key rating monitorable. In CARE's opinion, although the current capitalization and gearing levels give KFL necessary wherewithal to support planned near term growth, its ability to maintain healthy capitalization levels to absorb asset side shock, if any, going forward, remains a key rating driver.

Primarily secured nature of business; albeit financing to relatively riskier borrower segment: KFL has secured loan portfolio constituting around 99.96% of total AUM (own book + securitized) as on March 31, 2022, the portfolio is secured against the used/new vehicles (CVs, Four Wheelers, Two Wheelers, Tractors, equipment) and property mortgage, while the balance constitutes of unsecured loans as on March 31, 2022.

Commercial vehicles (HCV + LCV + SCV), Tractors and Multi Utility Vehicle (MUV) accounted for 30.87%, 10.73% and 9.69% respectively of total AUM, while LAP and Four Wheelers accounted for 22.25% and 25.18% respectively as on March 31, 2022. Further, KFL's tractor financing segment qualifies for priority sector and direct agricultural lending, as per RBI guidelines giving opportunities for DA and Securitizations.

The strength of secured nature of financing is partially offset by somewhat riskier borrower segment characterized by self-employed borrowers in the low to middle income category, whose income levels are susceptible to the impact of economic downturn, as was witnessed through the pandemic.

Well managed in-house appraisal, origination and collection team along with good MIS system: KFL has developed an in-house ERP system for online monitoring of all loan accounts and generation of required MIS reports, which is upgraded on a regular basis. KFL has an established monitoring structure for overseeing its operations including area wise, product-wise and sales executive-wise details. It has defined credit appraisal, collection and monitoring systems including profile of clients, ticket size, KYC, etc. It has implemented specialized software with web-based browser and user level restrictions to ensure speedy access to information with data security. Credit-appraisal and final approval of loan is done by a dedicated team for ticket size below Rs.10 lakh while for above that approval is given by the top management itself.

Further KFL has a dedicated vertical for collections with the National head looking after the overall collections. The teams are segmented as per bucket wise delinquency, with a dedicated team for 0-30 DPD customers, 30-60 DPD customers and 90+ customers. This leads to an effective method of controlling bucket wise slippages of customers, which is also demonstrated from a 16.5% 0+ DPD AUM as compared to only 2.29% of net 90+ DPD AUM as on March 31, 2022. Also, the company has a separate team for Tele calling which focuses on recovery of overdues from customers who has bounced on their NACH payments. The company has time till September 30, 2022 to put in place necessary changes prescribed by the RBI in the November 12 IRACP circular and has accordingly brought about several changes in its approach towards collection. Focus has now shifted to individual accounts vis-à-vis net impact on stage 3 as was the case earlier. Several efforts are underway to increase the on-time collections, as the management believes this will be critical in controlling the overall spill-over in the 90+ bucket.

Growing scale of operations with a broad resource base: KFL's scale of operations has depicted continuous growing trend. KFL's total outstanding AUM (gross) (including securitized portfolio) increased from Rs.1,496.31 crore as on March 31, 2021 to Rs.2,183.31 crore as on March 31, 2022, notwithstanding the disruptions caused by the covid-19 pandemic. This was led by significant increase in disbursement by around 71% to Rs.1,389.32 crore during FY22 over FY21. Going forward, the management expects to record disbursements of Rs.170-200 crore per month and has targeted AUM levels of around Rs. 5000 crore in the next two years. KFL continues to have adequately diversified resource profile for the scale of its business. As on March 31, 2022, KFL's borrowing mix included Loans (64.55%), Debentures/Bonds (25.43%), Securitization (7.45%) and CC/OD/WC facilities (2.56%). As of March 31, 2022, the company had borrowing relationships with 23 banks, 6 SFBs, 4 debt funds and 20 other financial institutions. As of March 31, 2022, 52% of the borrowings are fixed rate in nature and majority of the remaining 48% are linked to the MCLR, hence any impact on cost of funds in rising interest rate environment, is expected to be relatively gradual. KFL's continued ability to raise debt resources at competitive rates and promoters' and existing investor's ability to infuse capital, as required to support growth, would be construed as key credit positives.

Key rating weaknesses

Moderate geographical concentration: KFL has presence mainly in 8 states with major portion of loan portfolio in Rajasthan, Gujarat and Maharashtra which comprised 37%, 18% and 17% of its AUM, respectively, as on March 31, 2022. KFL also has operations in Madhya Pradesh and Delhi NCR region which comprised 10% and 4% of its AUM as on March 31, 2022. Further, since FY19, the company has diversified its operations to Haryana, Uttar Pradesh and Punjab which together comprised 14% of its AUM as on March 31, 2022. KFL has expanded its operations by opening new branches during FY22; which led to further granular distribution of portfolio across 179 branches as on March 31, 2022 compared to 145 branches as on March 31, 2021. Going forward, KFL's strategy on reducing dependence on Rajasthan and its implementation will be one of the credit monitorable.

Moderate asset quality and profitability, hinged on underlying borrower behaviour in an uncertain economic environment, however high yields and comfortable capitalization providing cushion to absorb asset side shocks, if any: KFL's GNPA stood at to 3.61% as on March 31, 2022 as compared to 3.35% as on March 31, 2021. NNPA stood at to 2.52% as on March 31, 2022 as compared to 2.39% as on March 31, 2021. On a net basis, 90+ dpd stood at Rs. 49.55 crore and mainly comprised of Loans against property (LAP) & business loans 34.1%, Four-wheeler loans 22.8%, LCV 21%, HCV 9.2%. LAP and business loans are extended to the MSME sector, which was impacted by the Covid-19 pandemic, that has adversely impacted the loan repaying capacity of these borrowers. In terms of delinquency in PAR 90 (AUM) as on March 31, 2022, the same stood at 3.53% for LAP & business loans, 2.07% for Four-wheeler loans, 2.08% for LCVs, 3.93% for Heavy commercial vehicles segment.

Restructured book stood at 3.17% as of March 31, 2022 and is adequately provided for (based on higher of RBI or Ind-as requirement). Incremental slippages from the restructured book in FY22 amounted to around Rs. 7 to 8 crore. The collection efficiency (included overdues) has recovered post May 2021 and stood at 103.76% in March 2022. Company operates in high yield riskier product class as is evident from ~60% of the outstanding book constituted by used vehicle financing. Correspondingly, KFL is able to generate higher interest rates in the range of 18-19%, giving it reasonable headroom to absorb related credit costs, when compared with its average cost of funds of ~9-9.5%. The ability to absorb the credit costs is further supported by comfortable capitalization levels with CAR of 28.46% as on March 31, 2022. Further, although KFL witnessed higher delinquencies in softer buckets with 0+ DPD stood at 16.5% as on March 31, 2022, it has demonstrated ability to control slippages into harder buckets, as is evident from the net 90+ DPD at 2.29%.

CARE also notes that the profitability metrics continues to remain moderate, with ROTA of 2.36% in FY22 in comparison to 2.92% in FY21. NIM declined to 8.2% in FY22 from 9.9% in FY21 on account of rise in cost of funds as well as negative carry-on account of excess liquidity. Further operating expenses/ATA increased to 5.7% from 4.9% on account of increase in employee expenses as KFL hired employees at various mid-senior management levels. Going forward, the company's ability to generate healthy profitability metrics while containing its credit costs related to incremental business, will remain a key credit sensitivity. Nonetheless, given the higher yields generated from the product class, KFL should be able to absorb the elevated credit costs, if any. The ability to absorb the credit costs is further supported by comfortable capitalization levels.

Liquidity: Adequate

Liquidity position of KFL as on March 31, 2022 has remained adequate. KFL has comfortable ALM as on March 31, 2022 with no negative cumulative mismatch in any time bucket. As on March 31, 2022, KFL has free cash and bank balance including FDRs of Rs.263 crore and free current investments (mutual fund/equity market etc.) of Rs.281 crore, combined with inflows from advances (excluding interest income) of Rs.574 crore, against its debt repayment obligation (excluding interest expense) of Rs.773 crore for the next 12 months. Further as stated by the management, the company will maintain liquidity for next three months of disbursements, which is to the tune of around Rs.500 to 600 crore.

Analytical approach

Standalone business profile, management and financial risk profile of KFL.

Applicable criteria

[Rating Outlook and Credit Watch](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Non-banking Financial Companies](#)

[Financial Ratios - Financial Sector](#)

[Rating Methodology-Market Linked Notes \(Includes Equity Linked Notes\)](#)

About the company

Incorporated on January 15, 1996, Kogta Financial (India) Ltd. (KFL) is a Non-deposit taking Non-Banking Finance Company (NBFC-ND). KFL is primarily engaged in used and new vehicle financing including commercial vehicles, multi utility vehicles, cars, agriculture-based vehicles etc., LAP financing and business loans and mainly operates in the states of Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Uttar Pradesh, Delhi, Haryana and Punjab. KFL operates through 179 branches across 8 states. The gross AUM (Asset under Management) as on March 31, 2022 stood at Rs.2,183 crores.

In May'22, the company successfully concluded its Series D round of institutional equity of Rs. 400 crore led by new private equity investor Multiple Asset Management (via their fund Multiples Private Equity Fund III). Canada Pension Plan Investment Board (via Javelin Investments Private Limited) along with existing investors Creador Advisors LLP (via Aditya Mauritius Ltd) and Morgan Stanley Private Equity Asia (via NHPEA Rimo Holding BV) also participated in the round. The transaction also involved secondary sale of all shares held by IIFL Seed Venture Fund (IIFL) to new and existing investors. The post transaction shareholding on a diluted basis as on May 11, 2022 was Promoter group (including warrants) 31.69%, NHPEA Rimo Holding BV 23.15%, Aditya Mauritius Ltd 17.24%, Multiples Private Equity Fund III 14.3%, Javelin Investments Private Limited 8.95%.

Ms. Nithya Easwaran joined KFL's Board of Directors as Investor Nominee Director from Multiples replacing the outgoing Investor Nominee Director from IIFL Mr. Amit Mehta.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	245.47	360.30	NA
PAT	45.14	52.13	NA
Interest coverage (times)	1.76	1.48	NA
Total Assets	1,850.35	2,573.29	NA
Net NPA (%)	2.39	2.52	NA
ROTA (%)	2.92	2.34	NA

A: Audited

Status of non-cooperation with previous CRA:

None

Any other information:

Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	May 01, 2027	1,400.00	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in	Date(s) and Rating(s) assigned in	Date(s) and Rating(s) assigned in	Date(s) and Rating(s)

					2022-2023	2021-2022	2020-2021	assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	100.00	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (06-Jan-22) 2)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (04-Feb-21) 3)CARE A-; Stable (14-Jul-20) 4)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19) 2)CARE A-; Stable (14-Nov-19)
2	Fund-based - LT-Term Loan	LT	1400.00	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (06-Jan-22) 2)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (04-Feb-21) 3)CARE A-; Stable (14-Jul-20) 4)CARE A-; Stable (01-Jun-20)	1)CARE A-; Stable (04-Dec-19) 2)CARE A-; Stable (14-Nov-19)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	-	1)Withdrawn (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (14-Nov-19)
4	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (14-Nov-19) 2)CARE BBB+; Stable (25-Jul-19)
5	Debentures-Non-Convertible Debentures	LT	6.75	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	1)CARE A-; Stable (07-Jan-20)
6	Debentures-Non-Convertible Debentures	LT	10.00	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (03-Jul-20) 3)CARE A-;	-

							Stable (01-Jun-20)	
7	Debentures-Non-Convertible Debentures	LT	50.00	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (03-Jul-20)	-
8	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	-
9	Debentures-Non-Convertible Debentures	LT	-	-	-	-	1)Withdrawn (04-Feb-21) 2)CARE A-; Stable (14-Jul-20)	-
10	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (19-Aug-20)	-
11	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (31-Aug-20)	-
12	Debentures-Non-Convertible Debentures	LT	5.21	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (04-Feb-21) 2)CARE A-; Stable (29-Sep-20)	-
13	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (22-Feb-21) 3)CARE A-; Stable (04-Feb-21) 4)CARE A-; Stable (23-Dec-20) 5)CARE A-; Stable (12-Nov-20)	-
14	Debentures-Non-Convertible	LT	18.75	CARE A;	1)CARE A; Stable	1)CARE A-; Stable	1)CARE A-; Stable	-

	Debentures			Stable	(21-Jun-22)	(24-Sep-21)	(16-Mar-21) 2)CARE A-; Stable (22-Feb-21) 3)CARE A-; Stable (04-Feb-21) 4)CARE A-; Stable (23-Dec-20) 5)CARE A-; Stable (12-Nov-20)	
15	Debentures-Market Linked Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21) 2)CARE PP MLD A-; Stable (23-Dec-20)	-
16	Debentures-Non-Convertible Debentures	LT	25.00	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21) 2)CARE A-; Stable (22-Feb-21) 3)CARE A-; Stable (04-Feb-21) 4)CARE A-; Stable (23-Dec-20)	-
17	Debentures-Market Linked Debentures	LT	8.00	CARE PP-MLD A; Stable	1)CARE PP-MLD A; Stable (21-Jun-22)	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21)	-
18	Debentures-Market Linked Debentures	LT	8.00	CARE PP-MLD A; Stable	1)CARE PP-MLD A; Stable (21-Jun-22)	1)CARE PP MLD A-; Stable (24-Sep-21)	1)CARE PP MLD A-; Stable (04-Feb-21)	-
19	Bonds-Non-Convertible Bonds	LT	20.00	CARE AA (CE); Stable	-	1)CARE AA (CE); Stable (04-Mar-22)	1)CARE AA (CE); Stable (09-Mar-21) 2)Provisional CARE AA (CE); Stable (08-Feb-21)	-
20	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Feb-21)	-
21	Debentures-Non-Convertible Debentures	LT	25.00	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (16-Mar-21)	-

							2)CARE A-; Stable (22-Feb-21)	
22	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (08-Mar-21)	-
23	Debentures-Non-Convertible Debentures	LT	19.83	CARE A; Stable	1)CARE A; Stable (21-Jun-22)	1)CARE A-; Stable (24-Sep-21)	1)CARE A-; Stable (08-Mar-21)	-
24	Debentures-Non-Convertible Debentures	LT	30.00	CARE A-; Stable	-	1)CARE A-; Stable (29-Sep-21) 2)Provisional CARE A-; Stable (05-Jul-21)	-	-
25	Debentures-Market Linked Debentures	LT	75.00	CARE PP-MLD A; Stable	1)CARE PP-MLD A; Stable (21-Jun-22)	1)CARE PP MLD A-; Stable (24-Sep-21)	-	-
26	Un Supported Rating	LT	0.00	CARE A-	-	1)CARE A- (04-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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